

Review of the Implementation of the
Government Performance and Results Act of 1993
Report No. 98-03, November 5, 1997

Background

The United States Congress passed the Government Performance and Results Act of 1993 with the intent of improving Government service and Congressional oversight through the greater use of performance measures. GPRA requires executive agencies to submit three reports:

- ! A five year Strategic Plan due by September 30, 1997 and updated at least once every three years;
- ! An Annual Performance Plan due with the Fiscal Year (FY) 1999 Budget Submission and each budget submission thereafter; and
- ! An Annual Performance Report due by March 31, 2000, and every March 31 thereafter.

GPRA also calls for pilot projects starting in FY 1994. The RRB participated in the pilot with its Survivor Claims Processing Project.

The Railroad Retirement Board's (RRB) Strategic Planning Team developed the agency's Strategic Plan and Annual Performance Plan. The Team consists of representatives from each of the RRB's major units: the Office of Programs, the Office of Administration, and the Office of General Counsel.

The OIG reviewed and commented on the July 2, 1997 draft of the Annual Performance Plan. The OIG also provided informal comments on the April 11, 1997 draft of the Strategic Plan. The RRB made changes to these plans based on input from the OIG, RRB office heads, and other stakeholders including Congress.

OMB's Memorandum 94-50 provided guidance and feedback to agencies on the implementation of GPRA. Under sources and uses of performance information, the guidance provided that, starting with the FY 1996 budget process, performance information would have an increased role in funding and other program decisions. The RRB's FYs 1997 and 1998 budget submissions contain several performance indicators including the number of Continuing Disability Reviews (CDR) performed and the resulting removal rates, error rates for processing claims, and the amount of time needed to process claims.

The RRB also includes several performance indicators in its annual financial statements. The indicators are grouped into the following six categories:

- ! Pay benefits to the right people,
- ! Pay benefits in the right amount,
- ! Pay benefits timely,
- ! Provide prompt courteous service,
- ! Financial performance indicators, and
- ! Efficiency of operations indicators (cost data).

Objectives, Scope and Methodology

The OIG's primary objectives were to determine if:

1. The RRB is effectively implementing the Government Performance and Results Act;
2. The RRB has adequate documentation to support the Program Performance Indicators reported in the RRB's Fiscal Year 1996 Financial Statements; and
3. The RRB effectively implemented the survivor claims processing project.

To meet the objectives, we reviewed the Government Performance and Results Act of 1993 (PL 103-62); accompanying guidance from OMB and GAO; Managerial Cost Accounting Concepts and Standards for the Federal Government; a 1995 OIG report entitled "Review of the Cost Accounting System;" the RRB budget submissions for FYs 1997 and 1998, and OMB passback information for FYs 1996 through 1998. The passback information consists of memos, faxes and records of phone calls with OMB. We also reviewed the July 7, 1997 draft of the RRB's agencywide Strategic Plan and the August 22, 1997 draft of the Annual Performance Plan. Through discussions with RRB officials, we obtained an understanding of the processes used to compile the performance indicators in the RRB's FY 1996 Financial Statements and traced the indicators to supporting documentation.

The review covered the RRB's preparation of the agencywide Strategic Plan and FY 1999 Annual Performance Plan. The review also covered the RRB Survivor Claims Processing Pilot Project.

We performed the review using generally accepted government auditing standards appropriate to our objectives. We conducted the review at RRB headquarters from January through September 1997.

Results of Review

The review determined that the RRB has complied with the basic requirements of the Government Performance and Results Act of 1993. The review also showed that the RRB effectively implemented the pilot project. However, the OIG noted some performance indicators and goals in the Annual Performance Plan which need improvement. The need for improvement was expected because this is the first year that the RRB is required to submit the Annual Performance Plan. The RRB has developed appropriate indicators in most areas.

However, the Annual Performance Plan does not contain performance targets for all performance indicators. Four targets in the plan promote the status quo, not continued improvement. The plan requires additional targets including unit costs for each RRB's key workload. In addition, the systems used to produce the performance indicators in the FY 1996 Financial Statements are generally unreliable and/or inefficient.

The Strategic Plan meets the requirements of GPRA. However, the RRB may have to make changes to the Strategic Plan if it cannot assign appropriate indicators and goals to each of the strategic objectives.

The details of recommendations for improvement are discussed in the following sections of the report.

Performance Goals and Targets

The purpose of GPRA is to improve the effectiveness of Federal programs and to improve Congressional oversight of the programs. The RRB's Annual Performance Plan does not promote program improvement because several performance targets are either nonexistent or inappropriate.

Section 1115 of Title 31 of the United States Code requires that agencies establish performance goals to define the level of performance to be achieved by a program activity. The RRB has chosen to define a level of performance in the performance indicators and measures. Defining the level of performance in the indicators/measures might be acceptable if each goal had appropriate indicators/measures. However, the OIG believes that 8 of the RRB's 47 indicators or measures need improvement or should be removed (See the Appendix for a complete list of recommended improvements). For example, the measure for performance indicator II-C.2 is the dollars collected through outside sources including the Treasury Offset Program, Treasury cross-servicing, Federal Tax Offset Program, and private collection agencies. A better measure would be a ratio of dollars collected per dollar expended instead of the dollar amount of debts collected by outside sources. Other examples are indicator III-A.1 to implement a methodology to determine unit cost of key production workloads and III-A.2 to set specific goals for unit costs of key workloads. The RRB should replace these indicators with target unit costs for each key workload. The RRB has a system to produce unit costs but it needs to be improved along with the other systems used to produce performance indicators.

The performance plan contains four target levels with lower performance goals than the RRB's current performance level. Lower performance goals do not meet GPRA's purpose of improving agency performance.

1. Performance indicator I-B.6 targets an end-of-year normal carry forward balance of 11,055 cases or less, the same balance established in a 1990 improvement plan. The RRB reported the 1996 balance as 2,746 which is much lower than the 11,055 goal for 1999. The RRB should reevaluate the normal carry forward balance to determine if 11,055 is still appropriate.
2. Performance indicator I-C.3 targets a normal working balance of less than 1,200 items. The RRB reported the 1996 balance of 525 which is lower than the 1,200 goal for FY 1997 through 1999. Again, this same balance was established in a 1990 improvement plan.
3. Performance indicator II-A.3 targets the RRB to perform 2,700 continuing disability reviews in FY 1999. The RRB performed 5,480 of these reviews in FY 1996.
4. Performance indicator II-C.2 targets \$600,000 of debts collected through referrals to outside collection programs in FY 1999. The RRB collected \$768,127 from these sources in FY 1996.

The OIG is recommending changes to indicators II-A.3 and II-C.2 (See Appendix). The RRB should reevaluate its goals for indicators I-B.6 and I-C.3. The Senate Committee Report on GPRA does allow for agencies to reduce the level of service if adequate resources are not available. However, the Annual Performance Plan does not state that the RRB kept the 1990 target levels because of a lack of resources. In the opinion of the OIG, the Annual Performance Plan should target improved performance, whenever possible. If improved performance is not possible, the performance plan should state the reasons why lower performance or level performance is necessary or desirable.

In addition, fourteen performance indicators do not contain any target levels. The performance plan does not explain the lack of targets for eight indicators (I-B.1, I-B.2, I-B.3, I-B.4, I-B.5, I-D.3, II-B.3, and II-B.4). Two indicators (IV-B.3 and IV-B.4) state that target levels will be established in 1998, which is acceptable. However, three of the remaining four indicators (I-C.2, III-B.1, and III-D.2) state that the measures will be established by FY 1999 which is unacceptable. Without target levels set prior to FY 1999, the RRB can report what occurred without a comparison to any measurement established before the RRB performed the activity. The remaining indicator (II-C.1) states that future rates of return cannot be forecasted. The RRB should not use any performance measures for which it cannot set goals. RRB management stated that OMB guidance does not require the agency to set target levels for all performance indicators. OMB Circular A-11 part 220.10 states, in part, that "Performance goals and indicators usually have a numerical target level or other measurable value. This facilitates the future assessment of whether the goals and indicators were actually achieved." Unfortunately the Circular does not state

when it is acceptable to not have target levels. Based on Section 1115 of Title 31 of the United States Code which requires that agencies establish performance goals to define the level of performance to be achieved by a program activity, the OIG believes that every performance indicator should have a target level or an explanation of why there is not a target level.

Recommendations

The RRB's Executive Committee should:

- ! Develop target levels for each performance indicator or explain why there is not a target level (Recommendation No. 1).
- ! Eliminate any performance indicators that cannot be assigned target levels (Recommendation No. 2).
- ! Reevaluate the target levels for performance indicators I-B.6 and I-C.3 (Recommendation No. 3).
- ! Change the eight performance indicators/measures noted in the Appendix (Recommendation No. 4).
- ! Consider revising or eliminating performance goals that cannot be associated with appropriate performance indicators. The corresponding strategic objective will have to be changed in the strategic plan (Recommendation No. 5).

Management's Response

The RRB's Executive Committee does not agree with any of the above recommendations. In their opinion, each performance indicator reflects a specific management commitment to achieve a specific task for which managers can be held accountable. Therefore, additional target levels are not required and all of the current performance indicators will be retained.

Target levels for performance indicators I-B.6 and I-C.3 should not be lowered because of other priorities.

OIG Comments

While OMB guidance does not require target levels, it does encourage target levels. In the opinion of the OIG, all performance indicators should have target levels or an explanation of why target levels are undesirable or impossible.

For the performance measures that do not target improvement, the RRB's Annual Performance Plan should state why the RRB is not targeting improvement (e.g., other

priorities, lack of resources, etc.). The RRB's current Annual Performance Plan does not state why the RRB is still using performance targets established in 1990.

We have reduced the number of questioned indicators from thirteen to eight based on RRB Management's response to the draft report. The five indicators that we no longer question qualify as means-type or agencywide goals and indicators as defined in OMB Circular A-11 Part 220.10. Based on the OMB guidance, the RRB should limit the use of these types of indicators in future Annual Performance Plans. The OIG believes that the FY 1999 Annual Performance Plan can be improved by making the eight remaining changes in the appendix (See appendix for details).

Systems to Produce Performance Indicators

The RRB has documentation for the performance indicators in the financial statements. However, computing the indicators requires manual manipulation of computerized data which is inefficient and has resulted in minor math errors on some indicators. For example, we noted minor math errors for representative payee changes and recoveries resulting from program integrity activities.

The review also showed that the RRB did not consistently report data for some indicators. For example, the RRB used statistics from two different surveys, the RRB's Setting Customer Service Standards Survey Report and the OIG's 1995 Customer Satisfaction Survey Report, to report customers' rating of RRB services. The OIG believes that the RRB should consistently report statistics or include a footnote to reflect that statistics were derived from different reports. The OIG also noted additional problems with performance indicators related to disability and unit cost.

The RRB has not adequately documented the procedures used to produce the timeliness indicators on disability ratings and payments. The Disability Unit relied on the knowledge of a single RRB employee to produce the timeliness figures. The Disability Unit is currently correcting this problem by drafting formal procedures.

The unit cost data in the RRB's Financial Statements is unreliable and inconsistent with other cost data used by the agency because the RRB's units of production are derived from multiple sources. The units of production for the Cost Accounting Reports are derived from the workloads reported in the offices' and bureaus' monthly administrative reports. The units of production for the Financial Statements are derived from special reports previously used for the agency's report to the Bureau of Labor Statistics. The RRB's cost accounting section cannot reconcile the unit cost in the cost accounting reports to the unit cost in the financial statements. As a result, the RRB is not in compliance with the Managerial Cost Accounting Concepts and Standards for the Federal Government which state that "cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other."

Inconsistent unit costs continue because the RRB has not fully implemented the

recommendations in Audit Report No. 95-15, "Review of the Cost Accounting System." Implementation of the recommendations requires cooperation among RRB units. The cost accounting section cannot implement the recommendations without the cooperation of RRB management at all levels.

The Government Performance and Results Act of 1993 (P.L. 103-62) requires agencies to "establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity" (31 U.S.C. § 1115(a)(4)). The Senate Committee Report on GPRA suggests using cost per unit of output as one of the indicators. The RRB properly identified unit costs as one of the ways to measure success. However, the RRB's unit costs are unreliable because units of production are not consistent throughout the agency. Therefore, the RRB cannot fully comply with the GPRA until RRB management can use cost data as a reliable performance indicator.

Although the RRB is considering purchasing Activity Based Costing Software, the software alone will not solve the RRB's cost accounting problems because the software requires extensive input of cost objectives and cost drivers. The RRB has to determine what items the software will measure and how the RRB's various costs relate to the item measured. The RRB's failure to correct its units of production problems indicates that the agency will encounter difficulties in establishing the Activity Based Costing System. If the RRB purchases Activity Based Costing Software, the agency will have to either discontinue use of the current system or be able to reconcile the data produced by the two systems.

Recommendations:

The Director of Programs, and the Director of Administration should:

- ! Completely automate the process to produce performance indicators so that no manual manipulation is necessary (Recommendation No. 6).
- ! Ensure that all cost information used by the agency comes from the cost accounting system or is reconcilable to the system's data (Recommendation No. 7).

Management Response

The RRB's Executive Committee rejected both recommendations, above. They stated that the Annual Performance Plan already contains the FY 1999 performance indicators. In their opinion, all cost information already comes from the cost accounting system.

The Annual Performance Planning Team contends that the following statement in the audit report is false. "The Agency has not adequately documented the procedures to produce timeliness indicators on disability ratings and payments. The Disability Unit relied on the knowledge of a single RRB employee to produce the timeliness figures."

OIG Response

The OIG does not understand the Executive Committee's reason for rejecting recommendation No. 6. Just because the indicators are already set does not mean that the RRB cannot automate the process to produce the indicators.

The Executive Committee's statement that all cost information already comes from the cost accounting system is inaccurate. The RRB's cost accounting section cannot reconcile the unit cost on financial statements to the unit cost on cost accounting reports. If the information came from the same source, they would be able to reconcile the figures.

Our statement on documentation to produce disability timeliness indicators is not false. Only one individual in the Disability Unit knew how to produce the final figures. At the time of the review no written documentation existed for the steps performed by that individual.

APPENDIX

1. Indicator I-D.3: Customer feedback (Measure: Surveys and Reviews)

A better indicator/measure would be percentage of customers satisfied with choices in service delivery options.

RRB management stated that they are committed to obtain this information through surveys and reviews.

The OIG believes that this commitment should be shown by making customer satisfaction the measure and assigning a target level of satisfaction.

2. Indicator II-A.3: Perform Continuing Disability Reviews (Measure: number performed)

A better measure would be the backlog of Continuing Disability Reviews required by regulations, or the percent of required reviews that are completed. The number performed will fluctuate with the number required, which is not entirely within the control of the RRB.

RRB management currently disagrees with this recommendation. The Office of Programs is developing a new policy for Continuing Disability Reviews. They will consider the OIG suggestion for future Annual Performance Plans.

3. Indicator II-B.1: Take prompt action to correct any material weaknesses (Measure: number of material weaknesses corrected by initial target date).

A better measure would be the percentage completed by the target date.

RRB management stated that this might not be a better measure because there are only three material weaknesses.

The current Annual Performance Plan does not state that there are only three material weaknesses. The OIG believes that using percentages is more appropriate because it does not matter how many weaknesses there are when you use percentages.

4. Indicator II-B.2: Submit to the President and Congress our Fiscal Year 1998 Federal Managers Financial Integrity Act Report by 12/31/99.

This indicator should be removed because it is a required action not a performance goal.

RRB Management believes that this indicator is permitted under OMB guidance and reflects management's commitment to a strong internal control program.

The OIG does not consider this to be a means-type goal as defined in OMB Circular A-11 Part 220.10. OMB defines a means-type goal as the means or strategy to achieve an agency's performance goals. The OIG does not believe that this indicator meets OMB's definition.

5. Indicator II-C.1: Market rate of return exceeds Bloomberg Index. The measure states that future rates of return cannot be forecasted.

The RRB should not use any indicators for which it cannot set a goal. The indicator should be replaced with some measure of financial viability such as a reduction in the actuarial liability of the trust funds.

RRB Management believes that the goal is explicitly stated. They also stated that actuarial liability is affected by several factors and is not directly related to investment performance.

The OIG is aware of the fact that actuarial liability is affected by multiple factors. However, the OIG believes that the RRB investment policy should take all of these factors into consideration. The OIG believes that actuarial liability is a better measure of the agency's performance as a whole.

6. Indicator II-C.2: Debts collected from outside sources (Measure: dollars collected)

A better measure would be a ratio of dollars collected to dollars spent.

RRB management believes that the current indicator is more appropriate than the OIG's suggestion because the OIG suggestion is an efficiency goal while the current indicator is an indicator of effectiveness.

OMB Circular A-11 Part 220.10 (b) encourages agency's to use efficiency goals. Therefore, the RRB should adopt the measure stated above. The RRB could use both measures if it desires.

7. Indicator III-A.1: Implement a methodology to determine unit cost of key production workloads (Measure: number of key workloads with unit cost information).

The indicator should eventually be replaced with unit cost goals. However, the cost accounting system is currently unreliable. Therefore, the RRB should use direct labor hours or some other efficiency measure until it can rely on unit cost data.

8. Indicator III-A.2: Set specific goals for unit cost (Measure: number of unit cost goals).

Same as indicator III-A.1

RRB Management made no comment about using direct labor hours as an efficiency goal.